



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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January 11, 2005

**TO:** Senator Lisa Brown, Chair  
Senator Joseph Zarelli  
Representative Jim McIntire  
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**FROM:** Chang Mook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** January 10, 2005 REVENUE COLLECTION REPORT

An accelerating real estate market and stronger than expected consumer and business spending pushed General Fund-State revenue much higher than expected in the December 11, 2004-January 10, 2005 collection period. General Fund-State receipts totaled \$1,079.0 million this month. This was \$77.4 million (5.1 percent) above the estimate for the period. Most major tax sources were higher than expected, however, Revenue Act (retail sales, business and occupation, use and public utility taxes) taxes (+\$32.3 million), and real estate excise tax (+\$21.4 million) accounted for the majority of this month's variance. This month's collections include an unusually large (\$9.5 million) audit payment; however, the majority of this month's positive variance is due to much stronger than expected consumer and business spending. The surge in revenue this month increases the cumulative variance for the two months since the last forecast to \$89.2 million (+4.0 percent).

Economic news has been mostly positive. The U.S. economy added 157,000 jobs in December. While this was less than most economists had expected, it was better than the last month and was enough to keep the unemployment rate at 5.4 percent. The Institute of Supply Management reported that its manufacturing index rose for the third consecutive month and its purchasing index rose as well. Also, the Conference Board reported that consumer confidence, which had declined for four consecutive months rose in December and the Index of Leading Indicators rose in November after having declined for five straight months. At the state level, the initial claims for unemployment insurance fell in December.

The outlook for consumer spending in the fourth quarter and beyond is now much higher than expected in the November forecast. This outlook is has been confirmed by very strong spending the last few months. Revenue Act receipts were 8.7 percent (adjusted for special factors) higher than a year-ago this period (primarily reflecting November business activity). This follows last month's 9.2 percent gain and a 7.6 percent increase two months ago. The 8.5 percent average growth the last three months is stronger than state income growth and the growth of retail sales nationally and is the best three month increase since early 2000.

Preliminary industry data for the December 11, 2004 to January 11, 2005 collection period based on payment data of nearly 12,300 mostly large taxpayers who filed electronically, show a nearly 6.0 percent increase in tax payments by businesses in the retail trade and food services sector. Last month retailers reported a 5.7 percent gain. All three-digit retail sectors reported increases. Double digit gains were reported by gas stations and convenience stores (+20.5 percent), building materials/garden retailers (+18.6 percent), electronics and appliance retailers (+12.1 percent), and non store retailers (+10.1 percent). Tax payments by auto dealers were up 3.1 percent and general merchandise stores were up only 0.6 percent.

Overall, tax payments by non-retail trade and food services business were up a strong 8.7 percent this month. Last month this category reported a 5.6 percent increase. The construction sector was very strong this month reporting a 19.4 percent increase in tax payments for the period. The wholesale trade sector (+13.9 percent), the information sector (+10.4 percent) and the professional scientific and professional services sector (+14.6 percent) also reported very strong growth in activity as measured by tax payments.

Although the state's major excise taxes (Revenue Act) were very strong this month, Non-Revenue Act General Fund taxes were \$45.1 million above the estimate this month, accounting for the majority of this month's positive variance. Most major Non Revenue Act sources were significantly above the estimate for the month. Real estate excise tax receipts were \$21.4 million above the forecast, estate tax was \$9.1 million higher than expected, property tax was \$7.7 million higher, and "other" revenue (primarily unclaimed property transfers) were \$6.6 million above the estimate. Cumulatively, for the two months since the November forecast Non Revenue Act taxes are \$40.7 million higher than expected with the real estate excise tax (+\$21.4 million), "other" (+\$12.3 million)—primarily unclaimed property, and estate tax (+\$6.7 million) accounting for the positive variance. The estate tax variance for the month and year-to-date is primarily the results of one unusually large estate tax payment. Legislation in 2003 shortened the holding period of unclaimed property. The higher than expected unclaimed property transfers the last couple of months are likely the result of a larger than expected impact of this legislation. While the Federal Reserve has significantly increased short-term interest rates in 2004, long term rates have not followed suite. The November forecast assumed mortgage rates would rise in the fourth quarter and real estate activity would slow. However, the reverse has occurred. Mortgage rates have fallen which has continued to fuel real estate activity and has resulted in significantly higher than expected real estate excise tax collections.

The growth of real estate excise activity accelerated again this month. Taxable activity (based on closings in November which reflect tax payments to the state in December) was 56.1 percent higher than a year-ago, the strongest year-over-year increase since 1990. Growth last month was 9.8 percent and it was 19.8 percent two months ago. Although higher prices continue to drive the increase in real estate excise tax collections, the number of transactions increased significantly last month. After declining for two consecutive months, transactions were 20.8 percent above the year-ago this month while the value per transaction increased an incredible 29.2 percent. As long as mortgage rates remain low, real estate activity is likely to continue to increase and remain well above the November forecast.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$28,000 above the estimate for the month. Cumulatively for the two months since the November forecast Department of Licensing collections are \$70,000 (7.1 percent) higher than expected.

The attached Table 1 provides a comparison of collections with the November 2004 forecast for the December 11, 2004 – January 10, 2005 collection period. Table II compares revised collections figures to the preliminary numbers reported in last month's collection report.

CMS: cg

Attachments

**TABLE 1**  
**Revenue Collection Report**  
**January 10, 2005 Collections Compared to the November 2004 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference Amount</u>	<u>Percent</u>
<b>December 11 - January 10, 2005</b>				
Department of Revenue-Total	\$1,001,104	\$1,078,455	\$77,351	7.7%
Revenue Act** (1)	694,675	726,951	32,276	4.6%
Non-Revenue Act(2)	306,429	351,504	45,075	14.7%
Liquor Sales/Liter	8,485	8,808	322	3.8%
Cigarette	4,267	4,187	(80)	-1.9%
Property (State School Levy)- net after transfer	239,018	246,728	7,709	3.2%
Property tax collections	261,014	268,723	7,709	3.0%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	0	0.0%
Estate	8,752	17,804	9,052	103.4%
Real Estate Excise	37,271	58,695	21,424	57.5%
Timber (state share)	0	0	0	NA
Other	8,635	15,282	6,647	77.0%
Department of Licensing (2)	539	567	28	5.1%
<b>Total General Fund-State***</b>	<b>\$1,001,644</b>	<b>\$1,079,022</b>	<b>\$77,379</b>	<b>7.7%</b>
<b>Cumulative Variance Since the November 2004 Forecast (November 11, 2004 - January 10, 2005)</b>				
Department of Revenue-Total	\$2,245,313	\$2,334,484	89,171	4.0%
Revenue Act** (3)	1,393,652	1,442,148	48,497	3.5%
Non-Revenue Act(4)	851,662	892,336	40,674	4.8%
Liquor Sales/Liter	17,085	17,383	298	1.7%
Cigarette	8,433	8,312	(122)	-1.4%
Property (State School Levy)-net after transfer	620,579	619,725	(853)	-0.1%
Property tax collections	642,574	641,720	(853)	-0.1%
transfer to the Student Achievement Acct.	(21,995)	(21,995)	0	0.0%
Estate	17,912	24,568	6,656	37.2%
Real Estate Excise	97,023	118,436	21,413	22.1%
Timber (state share)	1,842	2,854	1,012	NA
Other	88,787	101,058	12,271	13.8%
Department of Licensing (4)	995	1,065	70	7.1%
				NA
<b>Total General Fund-State***</b>	<b>\$2,246,308</b>	<b>\$2,335,549</b>	<b>\$89,241</b>	<b>4.0%</b>

1 Collections December 11 - January 10, 2005. Collections primarily reflect November 2004 activity of monthly taxpayers.

2 December 1-31, 2004 collections.

3 Cumulative collections, estimates and variance since the November 2004 forecast; (Nov. 11 - Jan. 10, 2005) and revisions to history.

4 Cumulative collections, estimates and variance since the Nov. forecast; (November and December 2004) and revisions to history.

\* Based on the September 2002 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing), about 97% of total General Fund-State revenue.

**TABLE 2**  
**December 10, 2004 Collection Report - Revised Data**  
**Thousands of Dollars**

Period/Source	Collections	Revised	Difference	
	Preliminary		Amount	Percent
November 11 - December 10, 2004				
Department of Revenue-Total	\$1,256,029	\$1,256,029	\$0	0.0%
Revenue Act (1)	715,197	715,197	0	0.0%
Non-Revenue Act(2)	540,832	540,832	(0)	-0.0%
Liquor Sales/Liter	8,575	8,575	0	0.0%
Cigarette	4,124	4,124	0	0.0%
Property (State School Levy)-net	372,997	372,997	0	0.0%
Property tax collections	386,439	386,439	(0)	-0.0%
transfer to the Student Achievement Acct.	(13,441)	(13,441)	(0)	NA
Estate	6,764	6,764	(0)	-0.0%
Real Estate Excise	59,741	59,741	0	0.0%
Timber (state share)	2,854	2,854	(0)	NA
Other	85,776	85,776	0	0.0%
Department of Licensing (2)	584	530	(54)	-9.2%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,256,613	1,256,559	(\$54)	-0.0%

Cumulative Receipts: November 11 - December 10, 2004 & Revisions to History

Department of Revenue-Total	1,256,029	\$1,256,029	\$0	0.0%
Revenue Act (3)	715,197	715,197	0	0.0%
Non-Revenue Act(4)	540,832	540,832	(0)	-0.0%
Liquor Sales/Liter	8,575	8,575	0	0.0%
Cigarette	4,124	4,124	0	0.0%
Property (State School Levy)-net after transfer	372,997	372,997	0	0.0%
Property tax collections	386,439	386,439	(0)	-0.0%
transfer to the Student Achievement Acct.	(13,441)	(13,441)	(0)	NA
Estate	6,764	6,764	(0)	-0.0%
Real Estate Excise	59,741	59,741	0	0.0%
Timber (state share)	2,854	2,854	(0)	NA
Other	85,776	85,776	0	0.0%
Department of Licensing (4)	552	530	(22)	-4.0%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,256,581	\$1,256,559	(\$22)	-0.0%

Preliminary. Reported in the December 10, 2004 collection report.

1 Collections Nov. 11 - Dec. 10, 2004. Collections primarily reflect October 2004 business activity of monthly taxpayers.

2 November 1-30, 2004 collections.

3 Cumulative receipts since the November 2004 forecast: Nov. 11- Dec. 10, 2004 & revisions to history.

4 Cumulative receipts since the November 2004 forecast (Nov. ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections

Year-over-Year Percent Change

